

The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

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The Dollar's Record Performance . . .

Last week's sharp upturn in the external value of the dollar was further proof—if any is needed—of the continuing close relationship between interest rates and foreign exchange rates. Not only has the dollar appreciated by over eight percent on a trade-weighted basis in the last four months, but last week it exceeded its previous all-time high reached just last January. What is more, the dollar hit record levels against the British pound, French franc and Canadian dollar. But while the recent burst of dollar strength put an end to talk of a near-term decline in its foreign exchange value, it is also adding to the difficulties of U.S. business in competing in both domestic and foreign markets. Nor is any near-term relief for the U.S. exporting community likely. In fact, quite the opposite appears a better bet, especially in light of the persistence of massive Federal budget deficits and the Federal Reserve's inflation-fighting monetary policy—a recipe for higher interest rates ahead at a time of swelling private credit demands.

To be sure, one of the principal reasons for the dollar's strength has been the lofty level of domestic interest rates. And here, too, it does not appear that this situation will change anytime soon. For despite expectations that the pace of business activity would slow as inventory spending fades and home construction moderates, the prevailing perception is that economic activity still remains robust. What is more, this belief was given added credence with the release of a strong, "flash" estimate of real GNP growth in the second quarter (Financial Digest—June 25, 1984), and the report of another good-sized drop in the unemployment rate in June. Under these conditions, the Federal Reserve is unlikely to ease its grip on the money and credit reins anytime soon and, according to some, may even decide to do precisely the opposite: Tighten a notch further in order to forestall any prospect of business "overheating."

. . . Reflects Lofty Interest Rate Levels . . .

But even if the Fed's policy-setting Federal Open Market Committee decides to place further policy initiatives on hold at its upcoming July 16 and 17 meeting—in response to an expected slowing of

business activity and still modest rates of inflation—the ongoing rise in economy-wide credit demands virtually ensures that interest rates will remain high for some time to come. For, in sharp contrast with last year, a major culprit behind this rise in borrowing needs has been a surge in business credit demands.

This is because with the growth of business cash flow beginning to taper off, and outlays for inventories, plant and equipment accelerating, the corporate financing gap is now running at an almost \$40 billion annual rate—an unwelcome reversal of the \$13 billion surplus which prevailed in 1983. Since a good chunk of this shortfall is being met by commercial banks and in the commercial paper market, it is hardly surprising that over the past 13 weeks commercial and industrial loans outstanding have increased at an almost 21 percent annual rate, while borrowings in the commercial paper market by corporate America have advanced at a 56 percent seasonally adjusted annual rate.

The current surge in business borrowings would not be so disruptive to interest rates if Treasury borrowings were receding as they usually do at this stage of the business cycle. However, they are not—or at least not by all that much. The Federal deficit continues to run at an approximately \$170 billion annual rate, and Federal and Federal-related borrowings are now absorbing almost \$1 in every \$3 raised in the credit markets. This proportion is only slightly lower than that posted in fiscal 1983, when the budget deficit reached a record \$195 billion—and more than three times larger than the average Treasury share posted in the past at this stage of the business cycle!

These developments, together with a sharp rise in the M1 money supply in recent weeks, have undoubtedly caused concern at the Fed. Indeed, not withstanding the fact that the rate of inflation remains subdued and the liquidity difficulties of some advanced developing countries are only now beginning to recede, recent money and credit demand growth trends probably preclude any substantive monetary policy easing. What this means for interest rates, in turn, is that the combination of swelling credit demands, and a not entirely accom-



modative Fed, should keep them at persistently lofty heights in the months ahead.

... But Burdens U.S. Exporters

While this may not be good news for the domestic economy, it should be for the dollar. The record-breaking strength of the dollar in the last few weeks, coming on top of an already overvalued currency, presents both benefits and costs to the United States and the global economy. On the benefit side, the burgeoning value of the dollar compared with the currencies of our trading partners plays an important role in restraining price increases in the U.S., particularly for those products where imports compete directly with domestically produced items. What is more, the flood of imports which has

accompanied the upward movement of the dollar has been a principal factor leading to the recent improvement in the global economic environment. Both the resumption of significant real economic growth in the industrial countries which began in 1983 and last year's remarkable improvement in the trade performance of many of the developing countries can be at least partially traced to the sustained upward course of the dollar since mid-year, 1980.

But the cost of the skyrocketing dollar to the U.S. economy is enormous as well—principally in the erosion of U.S. foreign trade competitiveness. The volume of U.S. exports has declined steadily since 1980 because the strong dollar has made our exports

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 6/27/84	S Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	163.888	+ .239	+ 13.383
Loans to Depository Inst.	2.973	— .448	+ .871
Float	.964	+ .210	— .629
Total Reserve Bank Credit	176.728	+ .204	+ 14.020
Treasury Deposits with			
Federal Reserve Banks	3.401	— .680	— .457
Currency in Circulation	174.015	— .254	+ 13.585
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	116.908	+ 2.572	+ 6.150
Member Bank Reserves:	6/20/84		
Total Reserves Held	37.145	+ 1.586	+ 2.110
Excess (Deficiency)	.775	+ .288	+ .366
Net Borrowed Reserves	.427	— 1.961	+ .310
Monetary Aggregates †		% Change Since	
		Three Months Ago*	Year Ago
M1 (6/25/84)	546.0	+ 7.9	+ 6.7
M2 (May '84)	2,259.6	+ 6.7	+ 7.5
M3 (May '84)	2,814.9	+ 10.2	+ 9.5
Domestic Nonfinancial Debt (1st Q'84)	5,406.0	+ 12.3	+ 12.0

†Seasonally adjusted.

* Seasonally adjusted annual rate.

New York Money Market

Offering Rates 7/6/84

	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	9.95%	10.40%	10.90%
* Federal Agencies	10.35	11.24	13.13
* Project Notes—Taxfree (46% Taxable Equivalent)	10.28	11.11	11.76
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	11.85	12.35	13.35
‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	10.90%	Aug.	11.30%
15- 29 days	11.10	Sep.	11.40
30- 59 days	11.15	Oct.	11.45
60- 89 days	11.15	Nov.	11.55
90-179 days	10.75	Dec.	11.65
180-239 days	1.75	Jan.	11.60
240-270 days	10.65		

‡ Industrial Paper—Prime

30- 89 days	11.25%	† Federal Funds Effective Rate	11.15%
90-120 days	11.40		

‡ Discount basis.

* Subject to availability.

† Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'84	\$ 3,550	\$ 3,436	\$ 3,172
Gross National Product (1972 Dollars)*	1st Q'84	\$ 1,609	\$ 1,573	\$ 1,490
Percent Change, Annual Rate	1st Q'84	9.7	5.0	2.6
Change in Consumer Prices (new series)*	May '84	2.4%	6.0%	4.8%
Change in Producer Prices*	May '84	0.0%	0.0%	3.6%
Civilian Employment (Thousands of Persons) †	Jun '84n	105,748	105,288	100,743
Unemployment as % of Civilian Labor Force †	Jun '84n	7.1%	7.5%	10.0%
Personal Income*	May '84	\$ 2,979	\$ 2,961	\$ 2,719
Leading indicators Composite Index (1967=100) †	May '84n	168.2	168.3r	154.4
Industrial Production Index (1967=100) †	May '84	163.2	162.5	144.4
Net Change in Consumer Installment Credit †	Apr '84	\$ 6.41	\$ 5.87	\$ 2.04
U.S. Merchandise Trade Balance †	May '84n	—\$ 8.84	—\$ 12.19	—\$ 6.75
Plant and Equipment Expenditures*	3rd Q'84	\$314.52(a)	\$303.79(a)	\$270.05
Private Housing Starts (Thousands of Units)*	May '84	1,782	1,990	1,779
New Construction Expenditures*	May '84n	\$ 310.4	\$ 305.0r	\$ 254.9
Total Business Inventories †	Apr '84	\$ 540.9	\$ 532.8	\$ 500.3
Total Business Sales †	Apr '84	\$ 404.6	\$ 401.9	\$ 351.0

*Seasonally adjusted annual rate.

†Seasonally adjusted.

n-Newly reported figure.

r-Revised.

a-Anticipated.

less competitive when priced in terms of foreign currencies. For example, the volume of U.S. exports declined by almost 20 percent between 1980 and 1983 while in the same period the dollar appreciated on a trade-weighted basis by over 43 percent. There has also been a sustained loss in world market share by the United States. Between 1981 and 1983, U.S. exports fell from 12.9 percent to 12.1 percent of total world exports.

As U.S. exports have declined, imports into this country have expanded at a rapid rate. In 1983 the value of imports increased by over 11 percent from the year before in real terms and, in spite of a brief drop in the trade-weighted value of the dollar early this year, imports from January through May were

almost 35 percent above the same period in 1983. Last year, the United States received over 15 percent of world imports compared with 13.8 percent the year before.

The flood of imports has resulted in increasing market penetration by foreign products into what were traditionally considered to be markets for domestically produced goods—resulting in a loss of jobs and corporate profits for this country. At the same time, jobs and profits have also been lost as U.S. exports have become increasingly priced out of foreign markets. Thus, American exporters face a two-way squeeze as a result of their increasing difficulties in competing on a price basis in either domestic or international marketplaces.

H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Year Ago
Time Deposits of \$100,000 or more			
Weekly Reporting Banks			
Nationwide (6/20/84)	154,260	- 248	+ 6,961
New York City (6/20/84)	34,118	+ 224	+ 1,943
Commercial Paper (6/20/84)	217,749	+ 123	+44,828

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans			
Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Year Ago
Nationwide (6/20/84)	243,084	+ 2,216	+26,953
New York City (6/20/84)	64,432	+ 611	+ 6,174
Total Loans and Leases Gross Adjusted			
	Latest Week	Change Since Week Ago	Year Ago
Nationwide (6/20/84)	611,620	+ 4,189	+90,211
New York City (6/20/84)	138,801	+ 1,298	+21,286

Financial Markets

U.S. Governments, Closing Yields:

	Friday 7/6/84	Week Ago	Year Ago
90-Day Billst	10.40%	+ .20	+ 1.00
180-Day Billst	11.15	- .05	+ 1.35
Longest Billst	12.05	- .20	+ 1.95

Recent Issues:

13s 6/30/86	13.10	- .05	
13 ⁵ /8s 6/30/88	13.50	- .12	
13 ¹ /8s 5/15/94	13.75	- .05	
13 ¹ /4s 5/15/14	13.55	-0-	

Municipals:

Bond Buyer—20 Bond Index* (7/5/84)	10.69%	- .07	+ 1.14
Blue List Total (\$ Million)	\$1,436	+ \$ 24	+ \$415
30-Day Visible Supply (\$ Million)	\$2,001	+ \$129	+ \$189
Total	\$3,437	+ \$153	+ \$604

Corporates:

Moody's Aa Composite (7/5/84)	14.34%	- .11	+ 2.06
30-Day Visible Supply (\$ Million)	\$ 597	- \$365	+ \$231

Stocks:

Dow-Jones Averages:			
Industrials	1,122.57	- 9.83	- 84.66
Transportation	474.69	+ .51	- 100.59
Utilities	125.67	+ 1.39	- 3.62
65 Stocks	437.88	- 1.38	- 46.02
Standard and Poor's 500 Stocks	152.24	- .94	- 15.56
N.Y.S.E. Composite Index	87.90	- .48	- 8.99
N.Y.S.E. Avg. Daily Vol. for Week (000's)	67,870	-12,674	- 11,345

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 7/6/84	Week Ago
Overnight	11.00%	10.88%
1 month	11.75	11.75
3 month	12.25	12.13
6 month	12.81	12.63
1 year	13.63	13.56

EURODOLLAR BONDS

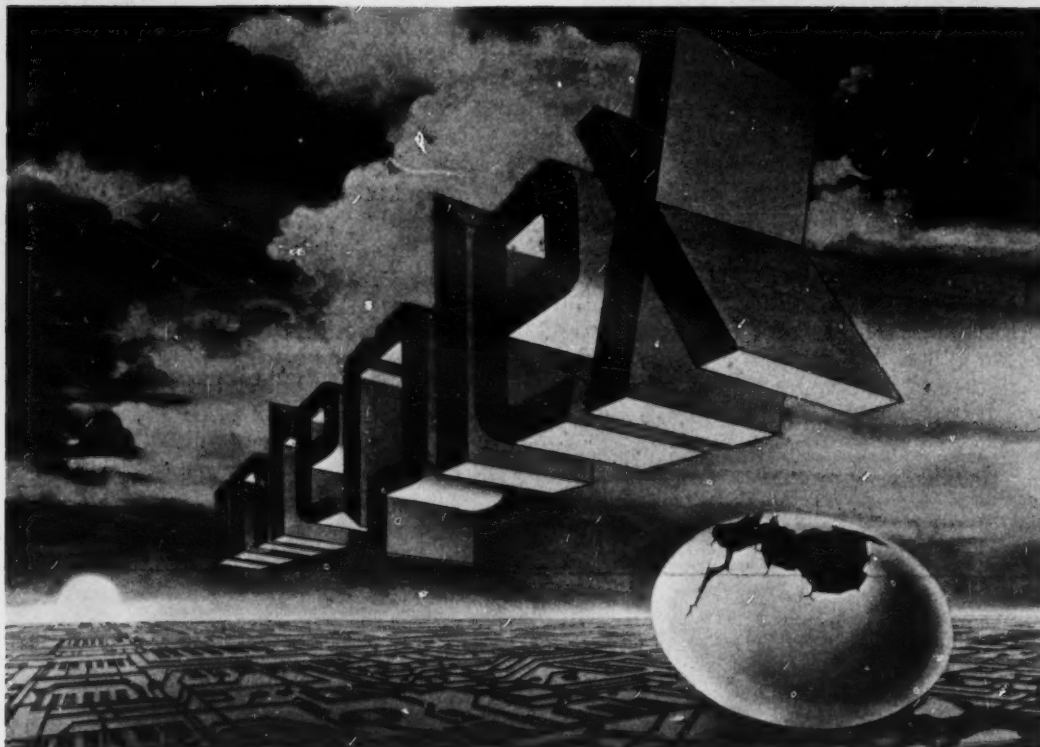
Average Yield		
Medium Term (5 to 7 yrs.)	13.60%	13.60%
Long Term (7 to 15 yrs.)	13.80	13.85

FOREIGN EXCHANGE SPOT RATES

New York Opening (7/6/84)	U.S. \$ Equivalent	Currency Per U.S. \$
Belgium	.01739	57.50
Canada	.7540	1.3263
Denmark	.09654	10.3580
France	.1151	8.6885
Germany	.3534	2.8300
Italy	.0005751	1,738.80
Japan	.004149	241.05
Mexico	.005076	197.00
Netherlands	.3132	3.1930
Switzerland	.4201	2.3805
U.K.	1.3225	.7561

* 46% Taxable equivalent 19.80%.

† Bond equivalent.



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